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## **News Release**

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### **Former Hedge-Fund Manager Pleads Guilty to Defrauding Minnesotans**

Former hedge-fund manager John W. Lawton, 34, of Minneapolis, appeared in federal court earlier today to plead guilty to orchestrating a scheme to defraud dozens of people, most of whom were Minnesotans, out of several million dollars. In a hearing before U.S. District Court Judge Paul A. Magnuson, in St. Paul, Lawton specifically pleaded guilty to one count of mail fraud and one count of making a false statement.

In entering his plea, Lawton admitted that between January 2006 and February 2009, he induced investors, most of whom were Minnesotans, into investing millions of dollars in Paramount Partners, a limited-partnership hedge fund he managed. Lawton also admitted that in an effort to lure new investors and retain existing ones, he knowingly overstated Paramount's assets and gains, while understating its losses.

To further his fraud scheme, Lawton provided prospective and existing investors with "fact sheets" that falsely represented Paramount's performance and situation. For example, the December 2008 "fact sheet" indicated Paramount held \$21 million in assets, which far exceeded the fund's true holdings. Other "fact sheets" represented that between 2002 and 2008, Paramount had annual investment returns ranging from 19.22 percent to 64.97 percent, with only one losing year, which was not the case. Moreover, "fact sheets" falsely claimed that Paramount substantially outperformed the S&P 500 Index.

According to his plea agreement, Lawton also created and caused to be sent to investors through the U.S. Mail fraudulent monthly statements. Those statements falsely reflected substantial increases in investment values. The action that gave rise to the mail fraud charge in this case, for example, occurred in January of 2009, when Lawton mailed to a Minneapolis investor a statement that falsely overstated the value of that investor's limited partnership

interest in Paramount. Then, in February of 2009, Lawton fabricated a document that falsely showed a balance of over \$12 million in Paramount's account with Goldman Sachs, knowing the document would be presented to the Securities and Exchange Commission. That action resulted in the false-statement charge.

The plea agreement indicates that because of Lawton's criminal activity, Paramount fraudulently received \$1,070,198 from investors in 2006; \$2,781,681 in 2007; \$6,327,581 in 2008; and a total of \$265,654 between January and February of 2009. For his crime, Lawton is facing a potential maximum penalty of 20 years in federal prison for mail fraud and five years for making a false statement. The sentence will be determined by Judge Magnuson at a later date.

This case was investigated by the U.S. Postal Inspection Service and the Federal Bureau of Investigation. It was prosecuted by Assistant U.S. Attorney Nathan P. Petterson.